



FINANCIAL STATEMENTS

For The Year Ended June 30, 2007



REHMANN ROBSON

Certified Public Accountants

HURON SCHOOL DISTRICT

For the Year Ended June 30, 2007

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INDEPENDENT AUDITORS' REPORT

October 18, 2007

Board of Education
Huron School District
New Boston, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of *Huron School District*, as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of *Huron School District's* management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of *Huron School District* as of June 30, 2007, and the respective changes in financial position thereof and the budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 18, 2007, on our consideration of **Huron School District's** internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3-10 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise **Huron School District's** basic financial statements. The combining and individual fund financial statements listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of **Huron School District**. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of **Huron School District**. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink that reads "Lehmann Johnson". The signature is written in a cursive, flowing style.

MANAGEMENT'S DISCUSSION and ANALYSIS

HURON SCHOOL DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS

For Fiscal Year Ending June 30, 2007

This section of the Huron School District's annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2007. Please read it in conjunction with the School District's financial statements, which immediately follow this section.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Huron School District financially as a whole. The *Government-wide Financial Statements* provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the School District's operations in more detail than the government-wide financial statements by providing information about the School District's most significant funds – such as the General Fund and Debt Retirement Fund, with all other funds presented in one column as Other Governmental Funds. The remaining statement, the Statement of Fiduciary Net Assets, presents financial information about activities for which the School District acts solely as an agent for the benefit of students and parents.

The financial statements also include *notes* that explain some of the information in the statements and provide more detailed data. The statements also include a section of *supplementary information* that further explains and supports the fund financial statements for nonmajor governmental funds. Below shows how the various parts of the annual report are arranged and related to one another.

Organization of Huron School District's Annual Financial Report

Management's Discussion & Analysis (MD&A)

Basic Financial Statements

Government-wide Financial Statements

Fund Financial Statements

Notes to the Financial Statements

(Supplemental Information)

Fund Statements: Nonmajor and Agency Fund

Appendix: Schedule of Expenditures of Federal Awards

HURON SCHOOL DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS

For Fiscal Year Ending June 30, 2007

Reporting the School District as a Whole - Government-wide Financial Statements

One of the most important questions asked about the School District is, "As a whole, what is the School District's financial condition as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities, which appear first in the School District's financial statements, report information on the School District as a whole and its activities in a way that helps you answer this question. We prepare these statements to include *all* assets and liabilities, using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the School District's *net assets*- the difference between assets and liabilities, as reported in the Statement of Net Assets - as one way to measure the School District's financial health, or *financial position*. Over time, *increases or decreases* in the School District's net assets - as reported in the Statement of Activities - are one indicator of whether its *financial health* is improving or deteriorating. The relationship between revenues and expenses is the School District's *operating results*. However, the School District's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other non-financial factors, such as the quality of the education provided and the safety of the schools to assess the *overall health* of the School District.

The Statement of Net Assets and Statement of Activities report the governmental activities for the School District, which encompass all of the School District's services, including instruction, operation and maintenance, transportation, athletics, and food services. Property taxes, sales to users, foundation allowance revenue, and state and federal grants finance most of these activities.

Reporting the School District's Most Significant Funds – Fund Financial Statements

The School District's Fund Financial Statements provide detailed information about the most *significant funds* - not the School District as a whole. Some funds are required to be established by State law and by bond covenants. However, the School District establishes many other funds to help it control and manage money for particular purposes (like the Food Service Fund) or to show that it's meeting legal responsibilities for using certain taxes, and other money (like taxes received for the retirement of debt from the local taxing entities). The governmental funds of the School District use the following accounting approach:

Governmental funds - All of the School District's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year-end that are available for spending. They are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial* assets that can readily be converted to cash. The governmental fund statements provide a detailed *short-term view* of the operations of the School District and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. We describe the relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* in a reconciliation.

HURON SCHOOL DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS

For Fiscal Year Ending June 30, 2007

The School District as Trustee - Reporting the School District's Fiduciary Responsibilities

The School District is the trustee, or *fiduciary* for its student activity funds. All of the School District's fiduciary activities are reported in separate Statement of Fiduciary Net Assets. We exclude these activities from the School District's other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

The School District as a Whole

Recall that the Statement of Net Assets provides the perspective of the School District as a whole. Table 1 provides a comparison of the School District's net assets from the fiscal year ending June 30, 2006 to fiscal year ending June 30, 2007. The change in net assets of the School District's governmental activities is discussed below (see Table 2).

District's Net Assets

TABLE 1

| | Governmental Activities | |
|--|--------------------------------|---------------------------|
| | <u>2006</u> | <u>2007</u> |
| ASSETS | | |
| Current assets | \$ 6,104,097 | \$ 7,426,225 |
| Capital assets – Net of accumulated depreciation | <u>28,133,176</u> | <u>26,520,836</u> |
| Total assets | 34,237,273 | 33,947,061 |
| LIABILITIES | | |
| Current liabilities | 4,088,656 | 4,565,387 |
| Long-term liabilities | <u>26,614,715</u> | <u>25,404,359</u> |
| Total liabilities | 30,703,371 | 29,969,746 |
| NET ASSETS | | |
| Invested in capital assets, net of related debt | 2,676,763 | 2,416,327 |
| Reserved for debt retirement | 345,422 | 517,540 |
| Unrestricted | <u>511,717</u> | <u>1,043,448</u> |
| Total net assets | <u>\$3,533,902</u> | <u>\$3,977,315</u> |

The School District's net assets were \$3.9 million on June 30, 2007. Capital assets, net of related debt totaling \$2.4 million, compares the original costs, less depreciation of the School District's capital assets, to long-term debt used to finance the acquisition of those assets. Reserved for debt retirement is \$517,540 and is reported separately to show legal constraints from debt covenants and enabling legislations that limit the School District's ability to use those net assets for day-to-day operations. Most of the debt will be repaid from voter-approved property taxes collected as the debt service comes due. The remaining amount is unrestricted net assets \$1,043,448. A positive unrestricted net asset balance may be used to meet the School District's ongoing obligations to its programs. At the end of the current fiscal

HURON SCHOOL DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS

For Fiscal Year Ending June 30, 2007

year, the District was able to report a positive unrestricted net asset balance which will enable the school district to meet working capital and cash flow requirements as well as to provide for future uncertainties. The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year to year.

District's Changes in Net Assets

TABLE 2

| | Governmental Activities | |
|---|--------------------------------|------------------------------|
| | <u>2006</u> | <u>2007</u> |
| REVENUES | | |
| General revenues: | | |
| Property taxes levied | \$ 4,399,770 | \$ 4,744,211 |
| Federal and state aid not restricted for specific purposes | 15,250,088 | 17,040,134 |
| Other | 171,254 | 175,825 |
| Program revenues: | | |
| Grants and Contributions | 3,199,236 | 2,912,461 |
| Charges for services | <u>656,960</u> | <u>684,013</u> |
| Total revenue | <u>23,677,308</u> | <u>25,556,644</u> |
| FUNCTION/PROGRAM EXPENSES | | |
| Instruction | 11,650,526 | 12,537,651 |
| Support services | 7,594,522 | 7,536,737 |
| Community services | 181,592 | 129,212 |
| Food services | 592,378 | 614,586 |
| Athletics and School Store | 493,781 | 514,533 |
| Payments to other districts | 468,309 | 462,067 |
| Interest on long-term debt | 1,572,179 | 1,628,494 |
| Depreciation (unallocated) | <u>1,692,511</u> | <u>1,689,951</u> |
| Total expenses | <u>24,245,798</u> | <u>25,113,231</u> |
| Increase/(decrease) in net assets of governmental activities | <u>\$ (568,490)</u> | <u>\$ 443,413</u> |

As reported in the Statement of Activities, the cost of all of our *governmental* activities this year was \$25.1 million compared to \$24.2 million the year before. Certain activities were partially funded from those who benefited from the programs or by other governments and organizations that subsidized certain programs with grants, categoricals, and charges for services of \$3.6 million. The district paid for the remaining "public benefit" portion of our governmental activities with \$4.7 million in taxes, \$17.2 million accumulated in federal and state aid not restricted for specific purposes and other revenues, like interest and general entitlements. The increase of 12% in federal and state aid not restricted for specific purposes was due to an increase in student population of 80 students. The majority of the district's revenues come from the per pupil foundation allowance which is \$7,660 per student. This is received from the State of Michigan which was an increase of \$210 per pupil from the 2005/06 school year plus

HURON SCHOOL DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS

For Fiscal Year Ending June 30, 2007

\$191 for an adjustment to our 1994/95 foundation. In the 2006/07 State Aid Act, Huron's foundation was adjusted for 2.23 mills based on mills levied in 1993 to finance an operating deficit. The district's foundation allowance was calculated as if those mills were included as operating mills in the calculation of the district's 1994/95 foundation allowance. Transfer to other districts of \$.5 million is the net cost to Huron School District for programs, such as vocational education, special education, dual enrollment, etc.

The 8% increase in Instruction was attributable to one new teacher for the increased student enrollment, two new health curriculum teachers, one new technology teacher at the elementary level, and salary improvements for staff.

The School District experienced an increase in net assets of \$.4 million. The major increase of net assets was a result of increased fund balance in General, Debt and Other Governmental Funds.

As discussed above, the net costs show the financial burden that was placed on the State and the School District's taxpayers by each of these functions. Since property taxes for operations and unrestricted State aid constitute the vast majority of School District operating revenue sources, the Board of Education and Administration must annually evaluate the needs of the School District and balance those needs with State-prescribed available unrestricted resources.

The School District's Funds

As we noted earlier, the School District uses funds to help it control and manage money for particular purposes. Looking at funds can help you consider whether the School District is being accountable for the resources taxpayers and others provide to it and may provide more insight into the School District's overall financial health.

As the School District completed this year, our governmental funds reported a combined fund balance of \$2,489,819, which is an increase of \$811,025. This is due mainly to the following:

- The General Fund had an actual increase of \$633,487. At the end of the year, that budget was projected to be \$292,044 revenue over expenditures. The \$341,443 additional increase in fund balance was a result of actual expenditure line items under budget by 1.5%. The district tried to curtail spending from January 1 to June 30, 2007, because the State of Michigan had a revenue shortfall and had reported that it may reduce the foundation allowance by \$122 per pupil which could have resulted in revenue loss of \$297,209. This reduction did not happen by June 30, 2007.
- The Debt Service Fund had an actual increase of \$69,992 due to an increase in taxable value in the school district and an increase in interest revenue generated from the tax revenue.
- Other Governmental Funds had an accumulated increase of \$107,546 which includes the Athletic, Food Service, Civic Auditorium, School Store, and Special Education Center Program.

HURON SCHOOL DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS

For Fiscal Year Ending June 30, 2007

General Fund Budgetary Highlights

Over the course of the year, the School District revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. The final amendment to the budget was actually adopted by the Board of Education on June 18, 2007. A schedule showing the School District's original and final budget amounts compared with amounts actually paid and received is provided in our annual report.

There were revisions made to the 2006-2007 original general fund budget. Budgeted revenues were increased \$836,406 due primarily to the following significant changes:

- \$88,577 increase as a result of increased student enrollment of 20 students over budget.
- \$197,946 prior year revenue adjustment for 51a Special Education one-time revenues.
- \$61,486 Section 51a Special Education revenue adjust for transportation and special education.
- \$447,131 1993 operating deficit millage of 2.23 mills was added to the per pupil foundation allowance per the 2006/07 State Aid Act.
- \$28,774 Middle School Math Categorical.

Budgeted expenditures were increased \$536,708 due primarily to the following significant changes:

- \$258,778 increase as a result of two new teaching positions because of increased enrollment, teacher degree changes, teacher class overage salary, substitute teacher salary increase due to teacher leave of absences, and teacher retirement pay.
- \$149,755 increase as a result of air conditioning at Renton, asphalt repair at Renton, new maintenance truck, soccer scoreboard, transportation vehicle parts, and site improvements.
- \$24,105 increase as a result of utilities rates.
- \$41,005 increase as a result of increased support staff hours for transportation, one new special education aide, and administrative salary and health insurance changes.

HURON SCHOOL DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS

For Fiscal Year Ending June 30, 2007

Capital Asset and Debt Administration

Capital Assets

The district's net investments in capital assets decreased during the year by \$1,612,340 which is summarized below:

| | Governmental Activities | |
|--------------------------|--------------------------------|----------------------------|
| | <u>2006</u> | <u>2007</u> |
| Land | \$ 691,974 | \$ 691,974 |
| Building improvements | 23,827,037 | 22,764,263 |
| Buses and other vehicles | 970,467 | 788,785 |
| Furniture and equipment | <u>2,643,698</u> | <u>2,275,814</u> |
| | <u>\$28,133,176</u> | <u>\$26,520,836</u> |

In 2001, Huron School District voters approved a \$20.8 million, general obligation, bond issue. The proceeds from that bond issue were used for constructing additions and remodeling of four existing school facilities and equipping those facilities for technology. The capital project was mostly completed in the 2004/05 school year. The decrease in capital assets was the result of the depreciation of those assets which was \$1,689,951. The district purchased only \$77,611 in capital assets in the 2006/07 school year.

Debt

At the end of this year, the School District had \$24.9 million in bonds outstanding versus \$25.6 million last year - a decrease of 2.6%. The District issued \$8,420,000 of general obligation bonds to provide resources to refund \$7,985,000 of the 2001 Building and Site Bonds. The refunding was done to reduce future debt service payments by \$505,689 which resulted in an economic gain of \$386,260. Those bonds consisted of the following:

| | Outstanding Debt | |
|--------------------------|-------------------------|--------------------|
| | <u>2006</u> | <u>2007</u> |
| General obligation bonds | \$25,615,452 | \$24,961,527 |

The School District's general obligation bond rating continues to be Moody's "Baa1" and S & P "A-" without regard to qualifications for the School Bond Loan Fund or the use of bond insurance. The state limits the amount of general obligation debt that schools can issue to 15 percent of the assessed value of all taxable property within the School District's boundaries. The School District's outstanding general obligation debt of \$24.9 million is significantly below this limit, which is currently \$96.8 million.

There is more detailed information about our capital assets and long-term liabilities in the notes to the financial statements which include other obligations such as accrued vacation pay, sick leave, bus notes and land purchase contract.

HURON SCHOOL DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS

For Fiscal Year Ending June 30, 2007

Economic Factors and Next Year's Budgets and Rates

At the time these financial statements were prepared and audited, the District was aware of four existing circumstances that could significantly affect its financial health in the future:

- One of the most important factors affecting the budget is our student count. The state foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The blended count for the 2007-08 fiscal year is 25% and 75% of the February 2007 and September 2007 student counts, respectively. The 2007-2008 budget was adopted in June 2007, based on an estimated number of students that will be enrolled in September 2007. Approximately 84% of the total revenues for the School District are from the student foundation allowance. We anticipate that the September 2007 student count to be 38 students higher than the February 2007 or the same number of students that the School District had in September 2006, the previous year. Under state law, the School District cannot assess additional property tax revenue for general operations. The student count used could be below the estimates used in creating the 2007/08 budget. Once the final student count and related per pupil funding is validated, state law requires the School District to amend the budget if actual School District resources are not sufficient to fund the original appropriations.
- Unexpected increases in diesel fuel and utilities costs for the 2007/08 school year.
- As of the writing of the Management Discussion and Analysis, the State of Michigan has not adopted a budget. The State of Michigan has a projected \$1.75 billion revenue shortfall and they are struggling with budget cuts and proposed tax increases. The district doesn't know what the school aid budget will be and the 2007/08 budget projection was based on assumptions from June 2007. The State of Michigan fiscal year begins on October 1, 2007 and the School District fiscal year began July 1, 2007 which is already three months into its new fiscal year.
- Currently, three of the collective bargaining agreements have expired, two which were on June 30, 2007 and one on August 31, 2007. These contracts are currently being negotiated. The financial impact to the School District of the settlements with these three employee groups will not be known until negotiations have been completed.

Our elected officials and administration monitor the budget very closely and take steps to try and balance revenues and expenditures to meet its fiscal responsibilities for their taxpayers, citizens, investors, and creditors.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional information, contact the Business Office, Huron School District, 32044 Huron River Drive, New Boston, Michigan 48164.

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

Huron School District
Statement of Net Assets
June 30, 2007

| | Governmental Activities |
|---|------------------------------------|
| Assets | |
| Cash and cash equivalents | \$ 2,699,977 |
| Receivables | 4,276,145 |
| Prepays and other items | 450,103 |
| Capital assets, not being depreciated | 691,974 |
| Capital assets being depreciated, net | 25,828,862 |
| Total assets | 33,947,061 |
| Liabilities | |
| Accounts payable and accrued liabilities | 2,944,251 |
| Unearned revenue | 65,629 |
| Notes payable | 1,555,507 |
| Long-term debt: | |
| Due within one year | 1,578,931 |
| Due in more than one year | 23,825,428 |
| Total liabilities | 29,969,746 |
| Net assets | |
| Invested in capital assets, net of related debt | 2,416,327 |
| Restricted for: | |
| Debt service | 130,934 |
| Other purposes | 386,606 |
| Unrestricted | 1,043,448 |
| Total net assets | \$ 3,977,315 |

The accompanying notes are an integral part of these financial statements.

Huron School District
Statement of Activities
For the Year Ended June 30, 2007

| Functions / Programs | Program Revenues | | | | Net (Expense) Revenue |
|--------------------------------------|-------------------------|---------------------------------|---|---|----------------------------------|
| | Expenses | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | |
| Governmental activities: | | | | | |
| Instruction: | | | | | |
| Basic programs | \$ 9,537,622 | \$ - | \$ 76,855 | \$ - | \$ (9,460,767) |
| Added needs | 3,000,029 | - | 2,547,468 | - | (452,561) |
| Total instruction | <u>12,537,651</u> | <u>-</u> | <u>2,624,323</u> | <u>-</u> | <u>(9,913,328)</u> |
| Support services: | | | | | |
| Pupil | 874,577 | - | 4,100 | - | (870,477) |
| Instructional services | 661,722 | - | 3,324 | - | (658,398) |
| General administration | 406,471 | - | - | - | (406,471) |
| School administration | 1,189,838 | - | - | - | (1,189,838) |
| Business | 356,243 | - | - | - | (356,243) |
| Maintenance | 2,109,303 | 5,322 | - | - | (2,103,981) |
| Transportation | 1,577,928 | 16,409 | 2,268 | - | (1,559,251) |
| Central services | 360,655 | - | - | - | (360,655) |
| School store | 51,846 | 67,573 | - | - | 15,727 |
| Athletics | 462,687 | 39,718 | - | - | (422,969) |
| Food service | 614,586 | 358,612 | 277,317 | - | 21,343 |
| Total supporting services | <u>8,665,856</u> | <u>487,634</u> | <u>287,009</u> | <u>-</u> | <u>(7,891,213)</u> |
| Community service | 129,212 | 196,379 | 1,129 | - | 68,296 |
| Payments to other districts | 462,067 | - | - | - | (462,067) |
| Depreciation - unallocated | 1,689,951 | - | - | - | (1,689,951) |
| Interest on long-term debt | 1,628,494 | - | - | - | (1,628,494) |
| Total governmental activities | <u>\$ 25,113,231</u> | <u>\$ 684,013</u> | <u>\$ 2,912,461</u> | <u>\$ -</u> | <u>\$ (21,516,757)</u> |

Continued

Huron School District
Statement of Activities (concluded)
For the Year Ended June 30, 2007

| | Governmental Activities |
|---|------------------------------------|
| Changes in net assets | |
| Net expense | \$ (21,516,757) |
| General revenues: | |
| Property taxes | 4,744,211 |
| State school aid | 16,968,113 |
| Grants and contributions not restricted to specific programs | 72,021 |
| Unrestricted investment earnings | 163,838 |
| Gain on the disposal of capital assets | 11,987 |
| Total general revenues | 21,960,170 |
| Change in net assets | 443,413 |
| Net assets, beginning of year | 3,533,902 |
| Net assets, end of year | \$ 3,977,315 |

The accompanying notes are an integral part of these financial statements.

FUND FINANCIAL STATEMENTS

Huron School District
Balance Sheet
Governmental Funds
June 30, 2007

| | General Fund | Debt Service | Other Governmental Funds | Total Governmental Funds |
|---|----------------------------|--------------------------|---|---|
| <u>ASSETS</u> | | | | |
| Assets | | | | |
| Cash and cash equivalents | \$ 2,443,379 | \$ 256,598 | \$ - | \$ 2,699,977 |
| Accounts receivable | 9,128 | - | 274 | 9,402 |
| Due from other governmental units | 3,487,394 | 384,622 | 38,378 | 3,910,394 |
| Property taxes receivable | 202,702 | 153,647 | - | 356,349 |
| Due from other funds | 751 | 75 | 356,196 | 357,022 |
| Inventories | 152,236 | - | 11,180 | 163,416 |
| Prepaid items | 93,211 | - | - | 93,211 |
| | <u>\$ 6,388,801</u> | <u>\$ 794,942</u> | <u>\$ 406,028</u> | <u>\$ 7,589,771</u> |
| <u>LIABILITIES AND FUND BALANCES</u> | | | | |
| Liabilities | | | | |
| Accounts payable | \$ 708,577 | \$ 7,168 | \$ 18,671 | \$ 734,416 |
| Accrued salaries and related liabilities | 1,937,617 | - | - | 1,937,617 |
| Due to other funds | 356,271 | - | 751 | 357,022 |
| Deferred revenue | 130,768 | 384,622 | - | 515,390 |
| Notes payable | 1,555,507 | - | - | 1,555,507 |
| Total liabilities | <u>4,688,740</u> | <u>391,790</u> | <u>19,422</u> | <u>5,099,952</u> |
| Fund balances | | | | |
| Reserved for inventories | 152,236 | - | 11,180 | 163,416 |
| Reserved for prepaid items | 93,211 | - | - | 93,211 |
| Unreserved, undesignated, reported in: | | | | |
| General fund | 1,454,614 | - | - | 1,454,614 |
| Special revenue funds | - | - | 375,426 | 375,426 |
| Debt service fund | - | 403,152 | - | 403,152 |
| Total fund balances | <u>1,700,061</u> | <u>403,152</u> | <u>386,606</u> | <u>2,489,819</u> |
| | <u>\$ 6,388,801</u> | <u>\$ 794,942</u> | <u>\$ 406,028</u> | <u>\$ 7,589,771</u> |

The accompanying notes are an integral part of these financial statements.

Huron School District
Reconciliation of Fund Balances on the Balance Sheet
for Governmental Funds to Net Assets of
Governmental Activities on the Statement of Net Assets
June 30, 2007

| | |
|--|--------------|
| Fund balances - total governmental funds | \$ 2,489,819 |
|--|--------------|

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

| | |
|--|------------|
| Add: capital assets, net of accumulated depreciation | 26,520,836 |
|--|------------|

Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current-period expenditures. Those assets (such as certain receivables) are offset by deferred revenues in the governmental funds, and thus are not included in fund balance.

| | |
|-------------------------------------|---------|
| Add: deferred long-term receivables | 449,761 |
|-------------------------------------|---------|

Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

| | |
|--|--------------|
| Deduct: bonds payable, land contracts payable, and loans payable | (25,490,902) |
| Deduct: unamortized bond premium | (71,466) |
| Add: unamortized loss on refunding | 879,762 |
| Add: unamortized bond issuance costs | 193,476 |
| Deduct: accrued interest on bonds payable | (272,218) |
| Deduct: compensated absences | (721,753) |
| | (721,753) |

| | |
|---------------------------------------|--------------|
| Net assets of governmental activities | \$ 3,977,315 |
|---------------------------------------|--------------|

The accompanying notes are an integral part of these financial statements.

Huron School District
Statement of Revenues, Expenditures and
Changes in Fund Balance
Governmental Funds
For the Year Ended June 30, 2007

| | General Fund | Debt Service | Other Governmental Funds | Total Governmental Funds |
|---------------------------------------|---------------------|-------------------|--------------------------------|--------------------------------|
| Revenues | | | | |
| Local sources | \$ 2,426,747 | \$ 2,717,918 | \$ 520,547 | \$ 5,665,212 |
| State sources | 17,591,111 | - | 109,465 | 17,700,576 |
| Federal sources | 1,168,165 | - | 258,423 | 1,426,588 |
| Other sources | 612,973 | - | 204,447 | 817,420 |
| Total revenues | <u>21,798,996</u> | <u>2,717,918</u> | <u>1,092,882</u> | <u>25,609,796</u> |
| Expenditures | | | | |
| Instruction: | | | | |
| Basic programs | 9,588,408 | - | - | 9,588,408 |
| Added needs | 2,764,374 | - | 259,655 | 3,024,029 |
| Total instruction | <u>12,352,782</u> | <u>-</u> | <u>259,655</u> | <u>12,612,437</u> |
| Support services: | | | | |
| Pupil | 886,793 | - | - | 886,793 |
| Instructional services | 661,722 | - | - | 661,722 |
| General administration | 371,397 | - | - | 371,397 |
| School administration | 1,189,838 | - | - | 1,189,838 |
| Business | 356,243 | - | - | 356,243 |
| Maintenance | 2,186,914 | - | - | 2,186,914 |
| Transportation | 1,577,928 | - | - | 1,577,928 |
| Central services | 360,655 | - | - | 360,655 |
| School store | - | - | 51,846 | 51,846 |
| Athletics | - | - | 462,687 | 462,687 |
| Food service | - | - | 614,586 | 614,586 |
| Total support services | <u>7,591,490</u> | <u>-</u> | <u>1,129,119</u> | <u>8,720,609</u> |
| Community services | 106,331 | - | 22,881 | 129,212 |
| Payments to other districts | 462,067 | - | - | 462,067 |
| Debt service: | | | | |
| Principal | 222,181 | 1,088,925 | - | 1,311,106 |
| Interest and fiscal charges | 16,326 | 1,562,785 | - | 1,579,111 |
| Bond issuance costs | - | 100,551 | - | 100,551 |
| Total debt service | <u>238,507</u> | <u>2,752,261</u> | <u>-</u> | <u>2,990,768</u> |
| Total expenditures | <u>20,751,177</u> | <u>2,752,261</u> | <u>1,411,655</u> | <u>24,915,093</u> |
| Revenues over (under) expenditures | <u>1,047,819</u> | <u>(34,343)</u> | <u>(318,773)</u> | <u>694,703</u> |
| Other financing sources (uses) | | | | |
| Proceeds from sale of capital assets | 11,987 | - | - | 11,987 |
| Issuance of refunding bonds | - | 8,420,000 | - | 8,420,000 |
| Premium on refunding bonds | - | 76,571 | - | 76,571 |
| Payments to escrow agent | - | (8,392,236) | - | (8,392,236) |
| Transfers in | - | - | 426,319 | 426,319 |
| Transfers out | (426,319) | - | - | (426,319) |
| Total other financing sources (uses) | <u>(414,332)</u> | <u>104,335</u> | <u>426,319</u> | <u>116,322</u> |
| Net change in fund balances | 633,487 | 69,992 | 107,546 | 811,025 |
| Fund balance, beginning of year | 1,066,574 | 333,160 | 279,060 | 1,678,794 |
| Fund balance, end of year | <u>\$ 1,700,061</u> | <u>\$ 403,152</u> | <u>\$ 386,606</u> | <u>\$ 2,489,819</u> |

The accompanying notes are an integral part of these financial statements.

Huron School District
Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the Year Ended June 30, 2007

Net change in fund balances - total governmental funds \$ 811,025

Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

| | |
|------------------------------|-------------|
| Add: capital outlay | 77,611 |
| Deduct: depreciation expense | (1,689,951) |

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds, but rather are deferred to the following fiscal year.

| | |
|---|----------|
| Subtract: payments received on long-term Durant Settlement receivable | (65,139) |
|---|----------|

Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

| | |
|--|-------------|
| Add: principal payments on long-term liabilities | 1,311,106 |
| Deduct: issuance of refunding bonds | (8,496,571) |
| Add: payment to refunding bond escrow agent | 8,392,236 |
| Add: bond issuance costs | 100,551 |
| Deduct: amortization of bond issuance costs | (11,947) |
| Deduct: amortization of loss on bond refunding | (53,448) |
| Add: amortization of bond premium | 5,105 |

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

| | |
|---|--------|
| Add: decrease in accrued interest payable on bonds | 10,907 |
| Add: decrease in the accrual for compensated absences and severance pay | 51,928 |

| | |
|--|-------------------|
| Change in net assets of governmental activities | \$ 443,413 |
|--|-------------------|

The accompanying notes are an integral part of these financial statements.

Huron School District
Statement of Revenues, Expenditures and
Changes in Fund Balance - Budget and Actual
General Fund
For the Year Ended June 30, 2007

| | Budget Amounts | | Actual | Actual Over (Under) |
|---------------------------------------|----------------|--------------|--------------|------------------------|
| | Original | Final | | Final Budget |
| Revenues | | | | |
| Local sources | \$ 2,416,332 | \$ 2,459,356 | \$ 2,426,747 | \$ (32,609) |
| State sources | 16,738,375 | 17,591,176 | 17,591,111 | (65) |
| Federal sources | 1,130,869 | 1,202,095 | 1,168,165 | (33,930) |
| Other sources | 809,533 | 666,901 | 612,973 | (53,928) |
| Total revenues | 21,095,109 | 21,919,528 | 21,798,996 | (120,532) |
| Expenditures | | | | |
| Instruction: | | | | |
| Basic programs | 9,325,912 | 9,628,897 | 9,588,408 | (40,489) |
| Added needs | 2,832,934 | 2,824,408 | 2,764,374 | (60,034) |
| Total instruction | 12,158,846 | 12,453,305 | 12,352,782 | (100,523) |
| Support services: | | | | |
| Pupil | 889,768 | 902,874 | 886,793 | (16,081) |
| Instructional services | 686,204 | 703,665 | 661,722 | (41,943) |
| General administration | 368,631 | 382,503 | 371,397 | (11,106) |
| School administration | 1,168,621 | 1,193,015 | 1,189,838 | (3,177) |
| Business | 336,357 | 346,466 | 356,243 | 9,777 |
| Maintenance | 2,154,027 | 2,277,276 | 2,186,914 | (90,362) |
| Transportation | 1,652,442 | 1,713,103 | 1,577,928 | (135,175) |
| Central services | 387,321 | 398,095 | 360,655 | (37,440) |
| Total support services | 7,643,371 | 7,916,997 | 7,591,490 | (325,507) |
| Community services | 183,248 | 108,050 | 106,331 | (1,719) |
| Payments to other districts | 444,796 | 491,062 | 462,067 | (28,995) |
| Debt service: | | | | |
| Principal | 222,181 | 222,181 | 222,181 | - |
| Interest and fiscal charges | 16,328 | 16,328 | 16,326 | (2) |
| Total debt service | 238,509 | 238,509 | 238,507 | (2) |
| Total expenditures | 20,668,770 | 21,207,923 | 20,751,177 | (456,746) |
| Revenues over expenditures | 426,339 | 711,605 | 1,047,819 | 336,214 |
| Other financing sources (uses) | | | | |
| Proceeds from sale of capital assets | - | 11,987 | 11,987 | - |
| Transfers out | (433,993) | (431,548) | (426,319) | 5,229 |
| Total other financing sources (uses) | (433,993) | (419,561) | (414,332) | 5,229 |
| Net change in fund balance | (7,654) | 292,044 | 633,487 | 341,443 |
| Fund balance, beginning of year | 1,066,574 | 1,066,574 | 1,066,574 | - |
| Fund balance, end of year | \$ 1,058,920 | \$ 1,358,618 | \$ 1,700,061 | \$ 341,443 |

The accompanying notes are an integral part of these financial statements.

Huron School District
Statement of Fiduciary Net Assets
June 30, 2007

| | <u>Agency Fund</u> |
|---------------------------|------------------------|
| Assets | |
| Cash and cash equivalents | \$ 161,095 |
| Accounts receivable | <u>2,703</u> |
| Total assets | <u>\$ 163,798</u> |
| Liabilities | |
| Due to student groups | <u>\$ 163,798</u> |

The accompanying notes are an integral part of these financial statements.

NOTES to the FINANCIAL STATEMENTS

HURON SCHOOL DISTRICT

Notes to the Financial Statements

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting entity

Huron School District (the “District”) has followed the guidelines of the Governmental Accounting Standards Board’s Statement No. 14 and has determined that no entities should be consolidated into its basic financial statements as component units. Therefore, the reporting entity consists of the primary government financial statements only. The criteria for including a component unit include significant operational or financial relationships with the District.

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. The District had no *business-type activities* during the year ended June 30, 2007.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

C. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting* as are the fiduciary fund financial statements, except for agency funds, which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

HURON SCHOOL DISTRICT

Notes to the Financial Statements

Governmental fund financial statements are reported using the *current financial resources measurement* focus and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The District reports the following major governmental funds:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *debt service fund* accounts for the retirement of long-term debt, which is financed through property taxes.

Additionally, the District reports the following fund types:

Special revenue funds are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specified purposes, where there is a need to determine the results of operations.

The *agency fund* accounts for assets held for other groups and organizations and is custodial in nature.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

HURON SCHOOL DISTRICT

Notes to the Financial Statements

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

The effect of interfund activity has been eliminated from the government-wide financial statements.

D. Assets, liabilities and equity

1. Deposits and investments

The District's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Investments are reported at fair value.

2. Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans).

3. Inventory and prepaid items

Inventory is valued at the lower of cost (first-in, first-out) or market. Inventory in the General Fund and Food Service Funds consists of expendable supplies held for consumption. The cost is recorded as an expenditure when consumed rather than when purchased. Reported inventories are equally offset by a fund balance reserve which indicates that they do not constitute "available spendable resources" even though they are a component of net current assets.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

4. Capital assets

Capital assets, which include property and equipment, are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of five years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

HURON SCHOOL DISTRICT

Notes to the Financial Statements

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Capital assets of the primary government are depreciated using the straight line method over the following estimated useful lives:

| <u>Assets</u> | <u>Years</u> |
|----------------------------|--------------|
| Buildings and improvements | 25 - 50 |
| Vehicles | 7-10 |
| Equipment | 5 - 25 |

5. *Compensated absences*

It is the District's policy to permit certain employees to accumulate earned but unused vacation and sick pay benefits. All vacation pay and 50 percent of sick leave are accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations or retirements.

6. *Long-term obligations*

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of the net assets. In accordance with GASB No. 34, the financial statements do not reflect future debt taxes, which will service the bonded long-term debt obligations.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

7. *Fund equity*

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

HURON SCHOOL DISTRICT

Notes to the Financial Statements

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general and special revenue funds. All annual appropriations lapse at fiscal year end.

The General and Special Revenue funds are under formal budgetary control. Budgets shown in the financial statements are adopted on a basis consistent with generally accepted accounting principles (GAAP), and are not significantly different from the modified accrual basis used to reflect actual results, and consist only of those amounts contained in the formal budget as originally adopted or as amended by the Board of Education. The budgets for the General and Special Revenue Funds are adopted on a functional basis.

B. Excess of expenditures over appropriations

Business expenditures in the General Fund exceeded appropriations by \$9,777.

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and investments

A reconciliation of cash and investments as shown on the Statement of Net Assets and Statement of Fiduciary Net Asset follows:

Statement of Net Assets:

| | |
|---------------------------|--------------|
| Cash and cash equivalents | \$ 2,699,977 |
|---------------------------|--------------|

Statement of Fiduciary Net Assets:

Agency Fund:

| | |
|---------------------------|----------------|
| Cash and cash equivalents | <u>161,095</u> |
|---------------------------|----------------|

\$ 2,861,072

| | |
|---------------|------------|
| Bank deposits | \$ 947,467 |
|---------------|------------|

| | |
|---|------------------|
| Investments in securities, mutual funds, and similar vehicles | <u>1,913,605</u> |
|---|------------------|

\$ 2,861,072

HURON SCHOOL DISTRICT

Notes to the Financial Statements

Statutory Authority

State statutes authorize the District to deposit and invest in:

- a. Bonds, bills, or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the State. In a primary or fourth class school district, the bonds, bills, or notes shall be payable at the option of the holder upon not more than 90 days notice or, if not so payable, shall have maturity dates not more than 5 years after the purchase dates.
- b. Certificates of deposit insured by a State or national bank, savings accounts of a state or federal savings and loan association, or certificates of deposit or share certificates of a state or federal credit union organized and authorized to operate in this State.
- c. Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.
- d. Securities issued or guaranteed by agencies or instrumentalities of the United States government or federal agency obligation repurchase agreements, and bankers' acceptance issued by a bank that is a member of the federal deposit insurance corporation.
- e. Mutual funds composed entirely of investment vehicles that are legal for direct investment by a school district.
- f. Investment pools, as authorized by the surplus funds investment pool act, composed entirely of instruments that are legal for direct investment by a school district.

The District's investment policy allows for all of these types of investments.

The District chooses to disclose its investments by specifically identifying each. At year end, the District had the following investments.

| <u>Investment</u> | <u>Maturity</u> | <u>Fair Value</u> | <u>Rating</u> |
|----------------------------|------------------------|--------------------------|----------------------|
| Michigan Liquid Asset Fund | n/a | \$ 1,913,605 | S&P – AAAm |

Investment and deposit risk

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified in list of authorized investments above. The District's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

HURON SCHOOL DISTRICT

Notes to the Financial Statements

Credit Risk. State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments above. The District's investment policy does not have specific limits in excess of state law on investment credit risk. The ratings for each investment are identified above for investments held at year end.

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned. State law does not require and the District does not have a policy for deposit custodial credit risk. As of year end, \$781,282 of the District's bank balance of \$991,172 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk – Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the District does not have a policy for investment custodial credit risk. On the investments listed above, there is no custodial credit risk as these investments are uncategorized as to risk.

Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments above. The District's investment policy does not have specific limits in excess of state law on concentration of credit risk. All investments held at year end are reported above.

B. Receivables

Receivables as of year end for the District's individual major funds and nonmajor funds in the aggregate, are as follows:

| | <u>General Fund</u> | <u>Debt Service Fund</u> | <u>Nonmajor Funds</u> | <u>Total</u> | <u>Amounts Not Expected to be Collected Within One Year</u> |
|---------------------|----------------------------|--------------------------|-------------------------|----------------------------|---|
| Receivables: | | | | | |
| Accounts | \$ 9,128 | \$ - | \$ 274 | \$ 9,402 | \$ - |
| Intergovernmental | 3,422,255 | - | 38,378 | 3,460,633 | - |
| Durant settlement | 65,139 | 384,622 | - | 449,761 | 384,622 |
| Taxes receivable | <u>202,702</u> | <u>153,647</u> | <u>-</u> | <u>356,349</u> | <u>-</u> |
| | <u>\$ 3,699,224</u> | <u>\$ 538,269</u> | <u>\$ 38,652</u> | <u>\$ 4,276,145</u> | <u>\$ 384,622</u> |

HURON SCHOOL DISTRICT

Notes to the Financial Statements

C. Capital assets

Capital assets activity for the year ended June 30, 2007 was as follows:

| | Beginning Balance | Increases | Decreases | Ending Balance |
|--|----------------------|-----------------------|-------------|----------------------|
| Governmental activities | | | | |
| Capital assets not being depreciated | | | | |
| Land | \$ 691,974 | \$ - | \$ - | \$ 691,974 |
| Capital assets being depreciated | | | | |
| Buildings and improvements | 31,537,419 | 51,550 | - | 31,588,969 |
| Vehicles | 2,170,508 | 26,061 | 5,794 | 2,190,775 |
| Equipment | 6,051,301 | - | 25,467 | 6,025,834 |
| Total capital assets being depreciated | 39,759,228 | 77,611 | 31,261 | 39,805,578 |
| Less accumulated depreciation for: | | | | |
| Buildings and improvements | 7,710,382 | 1,114,324 | - | 8,824,706 |
| Vehicles | 1,200,041 | 207,743 | 5,794 | 1,401,990 |
| Equipment | 3,407,603 | 367,884 | 25,467 | 3,750,020 |
| Total accumulated depreciation | 12,318,026 | 1,689,951 | 31,261 | 13,976,716 |
| Total capital assets being depreciated, net | 27,441,202 | (1,612,340) | - | 25,828,862 |
| Governmental activities capital assets, net | \$ 28,133,176 | \$ (1,612,340) | \$ - | \$ 26,520,836 |

Depreciation expense of \$1,689,951 was charged to function "unallocated depreciation" and was not allocated to other functions.

HURON SCHOOL DISTRICT

Notes to the Financial Statements

D. Payables

Accounts payable and accrued liabilities as of year end for the District's individual major funds and nonmajor funds in the aggregate, are as follows:

| | <u>General</u> | <u>Debt Service</u> | <u>Nonmajor Funds</u> | <u>Total</u> |
|--|----------------------------|-------------------------|---------------------------|----------------------------|
| Fund Financial Statements: | | | | |
| Accounts payable | \$ 708,577 | \$ 7,168 | \$ 18,671 | \$ 734,416 |
| Salaries and retirement payable | <u>1,937,617</u> | <u>-</u> | <u>-</u> | <u>1,937,617</u> |
| | <u>\$ 2,646,194</u> | <u>\$ 7,168</u> | <u>\$ 18,671</u> | <u>2,672,033</u> |
| District-Wide Financial Statements: | | | | |
| Accrued interest on long-term debt | | | | <u>272,218</u> |
| | | | | <u>\$ 2,944,251</u> |

E. Interfund receivables, payables and transfers

At June 30, 2007, interfund receivables and payables consisted of the following:

| | <u>Due From</u> | <u>Due To</u> |
|-----------------------------|--------------------------|--------------------------|
| General Fund | \$ 751 | \$ 356,271 |
| Debt Service Fund | 75 | - |
| Nonmajor governmental funds | <u>356,196</u> | <u>751</u> |
| | <u>\$ 357,022</u> | <u>\$ 357,022</u> |

The District reports interfund balances between its funds. The sum of all balances presented in the table above agrees with the sum of interfund balances presented in the statements of net assets/balance sheet for the governmental funds. These interfund balances resulted primarily from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

For the year ended June 30, 2007, the General Fund transferred \$426,319 to nonmajor governmental funds to subsidize the athletic programs and food service operations.

HURON SCHOOL DISTRICT

Notes to the Financial Statements

F. Long-term debt

The following is a summary of long-term debt transactions of the District for the year ended June 30, 2007:

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>Ending Balance</u> | <u>Due Within One Year</u> |
|---------------------------------------|------------------------------|---------------------|---------------------|---------------------------|--------------------------------|
| Governmental activities: | | | | | |
| General obligation bonds | \$ 25,615,452 | \$ 8,420,000 | \$ 9,073,925 | \$ 24,961,527 | \$ 1,147,417 |
| Unamortized premium | - | 76,571 | 5,105 | 71,466 | 5,105 |
| Unamortized loss on bond refunding | (525,974) | (407,236) | (53,448) | (879,762) | (53,448) |
| Other installment debt | 751,556 | - | 222,181 | 529,375 | 223,857 |
| Severance payable | 360,000 | - | 120,000 | 240,000 | 120,000 |
| Compensated absences | 413,681 | 184,992 | 116,920 | 481,753 | 136,000 |
| | <u>\$ 26,614,715</u> | <u>\$ 8,274,327</u> | <u>\$ 9,484,683</u> | <u>\$ 25,404,359</u> | <u>\$ 1,578,931</u> |

Long-term debt at June 30, 2007, consists of the following:

General obligation bonds:

\$6,144,416 1992 Refunding Bonds, due in annual installments of \$356,823 to \$477,903 through May 1, 2019, interest at 6.2% - 6.75% \$ 4,746,906

\$20,800,000 2001 Building and Site Bonds, due in annual installments of \$150,000 to \$1,200,000 through May 1, 2026; interest at 3.25% to 5.625% 3,150,000

* \$651,390 1998 Durant School Improvement Bonds, due in annual installments of \$28,722 to \$66,769 through 2013; interest at 4.8% 384,621

\$8,360,000 2005 Refunding Bonds, due in annual installments of \$40,000 to \$1,230,000 through May 1, 2026; interest at 3.5% to 4.25% 8,280,000

\$8,420,000 2006 Refunding Bonds, due in annual installments of \$20,000 to \$1,130,000 through May 1, 2021; interest at 4.00% 8,400,000

Total general obligation bonds payable **\$ 24,961,527**

* The Durant School Improvement Bonds are serviced from funds made available to Michigan School Districts by an annual appropriation by the Michigan State Legislature. If the Legislature does not appropriate the funding required, the District is not liable to pay the debt service.

HURON SCHOOL DISTRICT

Notes to the Financial Statements

Other installment debt:

| | |
|--|--------------------------|
| \$350,000 2000 Land Purchase Contract for the purchase of 34.776 acres of land, due in annual installments of \$35,000 through October 1, 2009; interest at 4.7% | \$ 105,000 |
| \$280,000 2000 Land Purchase Contract for the purchase of 16.82 acres of land, due in annual installments of \$28,000 through November 1, 2009; interest at 4.7% | 84,000 |
| \$168,306 2003 Note Payable for the purchase of school buses, due in annual installments of \$33,661 through February 13, 2008; interest at 2.78% | 33,662 |
| \$400,714 2003 Note Payable for the purchase of school buses, due in annual installments of \$80,143 through September 1, 2008; interest at 3.1% | 160,285 |
| \$235,568 2005 Note Payable for the purchase of school buses, due in annual installments of \$52,455 through March 1, 2010; interest at 3.10% | <u>146,428</u> |
| Total other installment debt | <u>\$ 529,375</u> |

The District issued \$8,420,000 of general obligation bonds to provide resources to refund \$7,985,000 of the 2001 Building and Site Bonds. The proceeds of the refunding were placed in an irrevocable trust to make future debt payments on the refunded bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the statement of net assets. The refunding was undertaken to reduce future debt service payments by \$505,689 and resulted in an economic gain of \$386,260.

At year end, defeased bonds outstanding consisted of \$15,710,000 of the 2001 Building and Site Bonds.

Compensated absences and the severance payable are generally liquidated by the general fund.

On June 30, 2004, the District entered into early retirement incentive program contracts in the amount of \$600,000. Program payments are due in annual installments of \$120,000 through January 2, 2009. The remaining balance on such contracts at June 30, 2007 was \$240,000.

HURON SCHOOL DISTRICT

Notes to the Financial Statements

Annual debt service requirements to maturity for general obligation bonds and other installment debt are as follows:

| | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-----------|----------------------|----------------------|----------------------|
| 2008 | \$ 1,371,274 | \$ 1,577,764 | \$ 2,949,038 |
| 2009 | 1,399,290 | 1,611,234 | 3,010,524 |
| 2010 | 1,354,932 | 1,648,546 | 3,003,478 |
| 2011 | 1,301,292 | 1,679,521 | 2,980,813 |
| 2012 | 1,524,600 | 1,799,992 | 3,324,592 |
| 2012-2016 | 7,294,991 | 9,306,634 | 16,601,625 |
| 2017-2021 | 6,469,523 | 4,975,552 | 11,445,075 |
| 2022-2026 | 4,775,000 | 498,255 | 5,273,255 |
| | <u>\$ 25,490,902</u> | <u>\$ 23,097,498</u> | <u>\$ 48,588,400</u> |

G. State Aid Anticipation Notes

During the year, the District financed some of its operations through the issuance of property tax and State Aid Anticipation Notes. These notes were issued for terms of less than one year, and accordingly, are recorded as liabilities of the respective funds from which they were issued. Short-term notes outstanding as of June 30, 2007, were comprised of the following:

General Fund:

State Aid Anticipation Notes, interest at 3.68% due 8/20/07:

| | |
|-----------------------|----------------------------|
| Beginning balance | \$ 1,440,766 |
| Additions | 1,555,507 |
| Reductions | <u>1,440,766</u> |
| Ending balance | <u>\$ 1,555,507</u> |

IV. OTHER INFORMATION

A. Risk management

The District is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation), as well as medical benefits provided to employees. The District has purchased commercial insurance for general liability, property and casualty and health claims and participates in the MASB/SET-SEG (risk pool) for claims relating to employee injuries/workers' compensation. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

HURON SCHOOL DISTRICT

Notes to the Financial Statements

The shared-risk pool program in which the District participates operates as a common risk-sharing management program for school districts in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

B. Defined benefit pension plan

Plan Description

The Huron School District contributes to the Michigan Public School Employees Retirement System (MPERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of Michigan Department of Management and Budget, Office of Retirement Systems. MPERS provides retirement, survivor and disability benefits, and death benefits to plan members and beneficiaries. Benefit provisions are established and must be amended by state statute.

The Office of Retirement Systems issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, 7150 Harris Drive, P.O. Box 30171, Lansing, Michigan, 48909 or by calling 1-800-381-5111.

Funding Policy

Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute at a permanently fixed rate of 3.9% of gross wages. Members first hired January 1, 1990 or later contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000. Basic Plan members make no contributions. The Huron School District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefits on a cash disbursement basis.

The current rate is 17.74% of annual covered payroll. The contribution requirements of plan members and the Huron School District are established by Michigan State statute and may be amended only by action of the State Legislature. The School District's contributions to MPERS for the years ended June 30, 2007, 2006, and 2005 were \$2,162,751, \$1,952,810, and \$1,574,228, respectively, equal to the required contributions for each year.

During the year ended June 30, 2007, the State of Michigan Office of Retirement Systems issued a credit to all school districts participating in MPERS. The District's share of this credit was \$351,548.

HURON SCHOOL DISTRICT

Notes to the Financial Statements

Other Postemployment Benefits

Retirees have the option of health coverage which is funded on a cash disbursement basis by the employers. The State of Michigan has contracted to provide the comprehensive group medical, hearing, dental and vision coverages for retirees and beneficiaries. All health care benefits are on a self-funded basis. A significant portion of the premium is paid by MPSERS with the balance deducted from the monthly pension.

Pension recipients are eligible for fully paid Master Health Plan coverage and 90% paid Dental Plan, Vision Plan and Hearing Plan coverage with the following exceptions:

1. Retirees not yet eligible for Medicare coverage pay an amount equal to the Medicare Part B premiums.
2. Retirees with less than 30 years of service, who terminate employment after October 31, 1980 with the vested deferred benefits, are eligible for partially employer paid health benefit coverage (no payment if less than 21 years of service).

* * * * *

FUND STATEMENTS

**Huron School District
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2007**

| | Special Revenue | | | | | Total Nonmajor Governmental Funds |
|---|----------------------|------------------|---------------|-------------------|---------------------|--|
| | Special Education | School Store | Athletics | Food Service | Civic Auditorium | |
| <u>ASSETS</u> | | | | | | |
| Assets | | | | | | |
| Accounts receivable | \$ - | \$ 274 | \$ - | \$ - | \$ - | \$ 274 |
| Due from other governmental units | - | - | - | 38,378 | - | 38,378 |
| Due from other funds | 99,893 | 43,675 | - | 129,225 | 83,403 | 356,196 |
| Inventories | - | 7,121 | 751 | 3,308 | - | 11,180 |
| <u>TOTAL ASSETS</u> | \$ 99,893 | \$ 51,070 | \$ 751 | \$ 170,911 | \$ 83,403 | \$ 406,028 |
| <u>LIABILITIES AND FUND BALANCES</u> | | | | | | |
| Liabilities | | | | | | |
| Accounts payable | \$ 18,141 | \$ - | \$ - | \$ - | \$ 530 | \$ 18,671 |
| Due to other funds | - | - | 751 | - | - | 751 |
| Total liabilities | 18,141 | - | 751 | - | 530 | 19,422 |
| Fund balances | | | | | | |
| Reserved for inventories | - | 7,121 | 751 | 3,308 | - | 11,180 |
| Unreserved, undesignated (deficit) | 81,752 | 43,949 | (751) | 167,603 | 82,873 | 375,426 |
| Total fund balances | 81,752 | 51,070 | - | 170,911 | 82,873 | 386,606 |
| <u>TOTAL LIABILITIES AND FUND BALANCES</u> | \$ 99,893 | \$ 51,070 | \$ 751 | \$ 170,911 | \$ 83,403 | \$ 406,028 |

Huron School District
Combining Statement of Revenues, Expenditures and
Changes in Fund Balance
Nonmajor Governmental Funds
For the Year Ended June 30, 2007

| | Special Revenue | | | | | Total Nonmajor Governmental Funds |
|-----------------------------------|----------------------|------------------|----------------|-------------------|---------------------|--|
| | Special Education | School Store | Athletics | Food Service | Civic Auditorium | |
| Revenues | | | | | | |
| Local sources | \$ - | \$ 67,573 | \$ 39,718 | \$ 358,612 | \$ 54,644 | \$ 520,547 |
| State sources | 74,709 | - | - | 34,756 | - | 109,465 |
| Federal sources | 15,862 | - | - | 242,561 | - | 258,423 |
| Other sources | 204,447 | - | - | - | - | 204,447 |
| Total revenues | <u>295,018</u> | <u>67,573</u> | <u>39,718</u> | <u>635,929</u> | <u>54,644</u> | <u>1,092,882</u> |
| Expenditures | | | | | | |
| Instruction-added needs | 259,655 | - | - | - | - | 259,655 |
| Support services: | | | | | | |
| School store | - | 51,846 | - | - | - | 51,846 |
| Athletics | - | - | 462,687 | - | - | 462,687 |
| Food service | - | - | - | 614,586 | - | 614,586 |
| Community services | - | - | - | - | 22,881 | 22,881 |
| Total expenditures | <u>259,655</u> | <u>51,846</u> | <u>462,687</u> | <u>614,586</u> | <u>22,881</u> | <u>1,411,655</u> |
| Revenue over (under) expenditures | 35,363 | 15,727 | (422,969) | 21,343 | 31,763 | (318,773) |
| Other financing sources | | | | | | |
| Transfers in | - | - | 422,969 | 3,350 | - | 426,319 |
| Net change in fund balances | 35,363 | 15,727 | - | 24,693 | 31,763 | 107,546 |
| Fund balance, beginning of year | <u>46,389</u> | <u>35,343</u> | <u>-</u> | <u>146,218</u> | <u>51,110</u> | <u>279,060</u> |
| Fund balance, end of year | <u>\$ 81,752</u> | <u>\$ 51,070</u> | <u>\$ -</u> | <u>\$ 170,911</u> | <u>\$ 82,873</u> | <u>\$ 386,606</u> |

Huron School District
Agency Fund
Statement of Changes in Assets and Liabilities
For the Year Ended June 30, 2007

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Deductions</u> | <u>Ending Balance</u> |
|---------------------------|------------------------------|-------------------|-------------------|---------------------------|
| Assets | | | | |
| Cash and cash equivalents | \$ 134,322 | \$ 389,981 | \$ 363,208 | \$ 161,095 |
| Accounts receivable | 230 | 2,473 | - | 2,703 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Total assets | <u>\$ 134,552</u> | <u>\$ 392,454</u> | <u>\$ 363,208</u> | <u>\$ 163,798</u> |
| Liabilities | | | | |
| Due to student groups | <u>\$ 134,552</u> | <u>\$ 392,454</u> | <u>\$ 363,208</u> | <u>\$ 163,798</u> |

APPENDIX

Huron School District
Schedule of Expenditures of Federal Awards
For Year Ended June 30, 2007

| | Federal CFDA Number | Approved Grant Award Amount | Accrued (Deferred) Revenue July 1, 2006 | (Memo Only) Prior Year Expenditures | Current Year Expenditures | Current Year Receipts (Cash Basis) | Accrued (Deferred) Revenue June 30, 2007 |
|---|---------------------------|-----------------------------------|--|--|---------------------------------|--|---|
| U.S. Department of Agriculture | | | | | | | |
| Direct program: | | | | | | | |
| Food distribution: | | | | | | | |
| Entitlement Commodities | 10.550 | \$ 26,165 | \$ - | \$ - | \$ 26,165 | \$ 26,165 | \$ - |
| Passed-through the Michigan Department of Education: | | | | | | | |
| Breakfast Program 2005-2006 | 10.553 | 34,976 | 6,975 | 34,976 | - | 6,975 | - |
| Breakfast Program 2006-2007 | 10.553 | 40,889 | - | - | 40,889 | 32,977 | 7,912 |
| | | <u>75,865</u> | <u>6,975</u> | <u>34,976</u> | <u>40,889</u> | <u>39,952</u> | <u>7,912</u> |
| National School Lunch Program | | | | | | | |
| Section 4 - total servings 2005-2006 | 10.555 | 35,733 | 5,873 | 35,733 | - | 5,873 | - |
| Section 11 - free and reduced 2005-2006 | 10.555 | 101,592 | 16,888 | 101,592 | - | 16,888 | - |
| Section 4 - total servings 2006-2007 | 10.555 | 45,407 | - | - | 40,816 | 33,975 | 6,841 |
| Section 11 - free and reduced 2006-2007 | 10.555 | 131,377 | - | - | 131,378 | 108,557 | 22,821 |
| | | <u>314,109</u> | <u>22,761</u> | <u>137,325</u> | <u>172,194</u> | <u>165,293</u> | <u>29,662</u> |
| Special Milk Program 2005-2006 | | | | | | | |
| Special Milk Program 2006-2007 | 10.556 | 3,716 | 636 | 3,716 | - | 636 | - |
| | | <u>3,313</u> | <u>-</u> | <u>-</u> | <u>3,313</u> | <u>2,727</u> | <u>586</u> |
| | | <u>7,029</u> | <u>636</u> | <u>3,716</u> | <u>3,313</u> | <u>3,363</u> | <u>586</u> |
| Total passed through Michigan Department of Education | | <u>397,003</u> | <u>30,372</u> | <u>176,017</u> | <u>216,396</u> | <u>208,608</u> | <u>38,160</u> |
| Total U.S. Department of Agriculture | | <u>423,168</u> | <u>30,372</u> | <u>176,017</u> | <u>242,561</u> | <u>234,773</u> | <u>38,160</u> |
| U.S. Department of Education | | | | | | | |
| Passed-through the Institute for Behavior and Health: | | | | | | | |
| Enhancing and Assessing Student Drug Testing - | | | | | | | |
| 2005-06 Stipend | 84.184D | 3,500 | (2,000) | 1,500 | 2,000 | - | - |
| 2006-07 Stipend | 84.184D | 3,000 | - | - | 2,079 | 3,000 | (921) |
| | | <u>6,500</u> | <u>(2,000)</u> | <u>1,500</u> | <u>4,079</u> | <u>3,000</u> | <u>(921)</u> |
| Passed-through the Michigan Department of Education: | | | | | | | |
| Title I | | | | | | | |
| Project 061530-0506 Regular 05/06 | 84.010 | 136,979 | 19,671 | 130,585 | - | 19,671 | - |
| Project 061530-0607 Carryover 06/07 | 84.010 | 6,394 | - | - | 6,394 | 6,394 | - |
| Project 071530-0607 Regular 06/07 | 84.010 | 137,718 | - | - | 127,866 | 72,820 | 55,046 |
| | | <u>281,091</u> | <u>19,671</u> | <u>130,585</u> | <u>134,260</u> | <u>98,885</u> | <u>55,046</u> |
| IDEA Special Education Cluster | | | | | | | |
| 2006 Handicapped Preschool & School Program | | | | | | | |
| | 84.173A | 4,130 | 1,466 | 1,466 | - | 1,466 | - |
| Title II, Part A | | | | | | | |
| Project 060520-0506 Regular 05/06 | 84.367 | 48,906 | 11,245 | 46,713 | - | 11,245 | - |
| Project 060520-0607 Carryover 06/07 | 84.367 | 2,193 | - | - | 2,193 | 2,193 | - |
| Project 070520-0607 Regular 06/07 | 84.367 | 48,316 | - | - | 41,667 | 25,538 | 16,129 |
| | | <u>99,415</u> | <u>11,245</u> | <u>46,713</u> | <u>43,860</u> | <u>38,976</u> | <u>16,129</u> |
| Title II, Part D | | | | | | | |
| Project 064290-0607 Carryover 06/07 | 84.318 | 2,555 | - | - | 2,545 | 169 | 2,376 |
| Project 064290-0607 Regular 06/07 | 84.318 | 1,414 | - | - | 215 | 93 | 122 |
| | | <u>3,969</u> | <u>-</u> | <u>-</u> | <u>2,760</u> | <u>262</u> | <u>2,498</u> |
| Title V Innovative Education | | | | | | | |
| Project 060250-0506 Regular | 84.298 | 994 | 76 | 994 | - | 76 | - |
| Project 070250-0607 Regular | 84.298 | 524 | - | - | 524 | 36 | 488 |
| | | <u>1,518</u> | <u>76</u> | <u>994</u> | <u>524</u> | <u>112</u> | <u>488</u> |
| Total passed through Michigan Department of Education | | <u>396,623</u> | <u>30,458</u> | <u>181,258</u> | <u>185,483</u> | <u>142,701</u> | <u>73,240</u> |
| Passed through the Wayne County Regional Education Service Agency: | | | | | | | |
| IDEA Special Education Cluster | | | | | | | |
| 2006 Flowthrough 060450-0506 | 84.027A | 558,877 | 52,510 | 555,499 | (2) | 52,508 | - |
| 2007 Flowthrough 070450-0607 | 84.027A | 638,226 | - | - | 621,205 | 478,902 | 142,303 |
| 2006 Positive Behavior Support Grant | 84.027A | 5,000 | 2,933 | 2,933 | 1,529 | 4,462 | - |
| 2007 Positive Behavior Support Grant | 84.027A | 3,500 | - | - | 3,450 | - | 3,450 |
| 2006 CPE 060450-0506 | 84.027A | 14,500 | 1,450 | 14,500 | - | 1,450 | - |
| 2007 CPE 070450-0607 | 84.027A | 15,862 | - | - | 15,862 | 12,671 | 3,191 |
| 2006 Preschool 050460-0506 | 84.173A | 92,713 | 9,271 | 92,713 | - | 9,271 | - |
| 2007 Preschool 070460-0607 | 84.173A | 98,550 | - | - | 98,550 | 81,676 | 16,874 |
| 2006 Early Childhood Grant | 84.173A | 2,737 | 1,368 | 2,737 | - | 1,368 | - |
| 2007 Early Childhood Grant | 84.173A | 2,800 | - | - | 2,800 | 1,400 | 1,400 |
| | | <u>1,432,765</u> | <u>67,532</u> | <u>668,382</u> | <u>743,394</u> | <u>643,708</u> | <u>167,218</u> |
| Safe & Drug Free Schools & Community | | | | | | | |
| 2006 Drug Free Grants #DRUG-5203 | | | | | | | |
| | 84.186 | 4,100 | - | - | 4,100 | 4,100 | - |
| Carl D. Perkins Vocational and Technical Act | | | | | | | |
| 2006 Secondary CTE Perkins Grant | 84.048A | 254,873 | 53,615 | 254,873 | - | 53,615 | - |
| 2007 Secondary CTE Perkins Grant | 84.048A | 251,050 | - | - | 251,050 | 208,887 | 42,163 |
| | | <u>505,923</u> | <u>53,615</u> | <u>254,873</u> | <u>251,050</u> | <u>262,502</u> | <u>42,163</u> |
| Total passed through Wayne County Regional Educational Service Agency | | <u>1,942,788</u> | <u>121,147</u> | <u>923,255</u> | <u>998,544</u> | <u>910,310</u> | <u>209,381</u> |
| Total U.S. Department of Education | | <u>2,339,411</u> | <u>151,605</u> | <u>1,104,513</u> | <u>1,184,027</u> | <u>1,053,011</u> | <u>282,621</u> |
| Total Federal Assistance | | <u>\$ 2,762,579</u> | <u>\$ 181,977</u> | <u>\$ 1,280,530</u> | <u>\$ 1,426,588</u> | <u>\$ 1,287,784</u> | <u>\$ 320,781</u> |

1. This schedule is presented on the accrual basis of accounting.
2. Expenditures in this schedule are in agreement with amount reported in the financial statements and the financial reports submitted with Michigan Department of Education.
3. The amounts reported on the Recipient Entitlement Balance (PAL) Report agree with this schedule for USDA donated food commodities.
4. The amounts reported on R7120 (Grant Section Auditor's Report) reconcile with this schedule.
5. Expenditures include spoilage or pilferage.



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

October 18, 2007

Board of Education
Huron School District
New Boston, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of *Huron School District*, as of and for the year ended June 30, 2007, and have issued our report thereon dated October 18, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Huron School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Huron School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Huron School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Huron School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Huron School District's financial statements that is more than inconsequential will not be prevented or detected by Huron School District's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2007-1 and 2007-2 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Huron School District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Huron School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Huron School District's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Huron School District's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the audit committee, management, the Board of Education, others within the organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

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REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM
AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133**

October 18, 2007

Board of Education
Huron School District
New Boston, Michigan

Compliance

We have audited the compliance of *Huron School District* with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2007. Huron School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Huron School District's management. Our responsibility is to express an opinion on Huron School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Huron School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Huron School District's compliance with those requirements.

In our opinion, Huron School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007.

Internal Control Over Compliance

The management of Huron School District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Huron School District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the District's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the District's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the audit committee, management, the Board of Education, others within the organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Lehmann Johnson". The signature is written in a cursive, flowing style.

HURON SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2007

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? _____ yes X no

Significant deficiencies identified
not considered to be material weaknesses? X yes _____ none reported

Noncompliance material to financial statements
noted? _____ yes X no

Federal Awards

Internal Control over major programs:

Material weakness(es) identified? _____ yes X no

Significant deficiency identified
not considered to be material weaknesses? _____ yes X none reported

Type of auditors' report issued on compliance
for major programs: Unqualified

Any audit findings disclosed that are required
to be reported in accordance with
Circular A-133, Section 510(a)? _____ yes X no

HURON SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

FOR THE YEAR ENDED JUNE 30, 2007

SECTION I - SUMMARY OF AUDITORS' RESULTS (Concluded)

Identification of major programs:

| <u>CFDA Number(s)</u> | <u>Name of Federal Program or Cluster</u> |
|---|---|
| 84.027A & 84.173A | Special Education Cluster |
| Dollar threshold used to distinguish between Type A and Type B programs: | <u>\$300,000</u> |
| Auditee qualified as low-risk auditee? | <u> X </u> yes <u> </u> no |

SECTION II – FINANCIAL STATEMENT FINDINGS

Finding 2007-1: Preparation of Financial Statements in Accordance with GAAP

Criteria: All school districts are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is a responsibility of the districts management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting).

Condition: As is the case with many smaller and medium-sized entities, the district has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the district's ability to prepare financial statements in accordance with GAAP is based, in part, on its external auditors, who cannot by definition be considered a part of the government's internal controls.

Cause: Due to the lack of knowledge, expertise and education relative to preparing GAAP financial statements possessed by the finance department, management has made the decision that it is in their best interest to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the government to perform this task internally.

Effect: As a result of this condition, the district lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.

HURON SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Concluded)

FOR THE YEAR ENDED JUNE 30, 2007

**View of
Responsible**

Officials: The district has evaluated the benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the district to outsource this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

Finding 2007-2: Adjustments of Year-End Trial Balance

Criteria: The district is responsible for the reconciliation of all general ledger accounts to their proper underlying balances for the purpose of creating a reasonably adjusted trial balance from which the basic financial statements are derived.

Condition: Accounts payable and inventory accounts were not accurately stated prior to audit adjustments.

Cause: Internal controls did not detect all adjustments necessary to properly record all year-end adjusting journal entries.

Effect: Audit adjustments were necessary in order to properly state the year-end balance of accounts payable and inventory.

**View of
Responsible**

Officials: This finding was a clerical error on the district's part. The maintenance department orders supplies for the upcoming year in June before the secretary leaves for the summer. The orders are supposed to be shipped after July 1st, which is the beginning of the next fiscal year; but the vendor shipped the merchandise prior to July 1st. The business office did not notice this and set the payment up for the next fiscal year. We have established an internal control procedure that will check all purchase orders for next fiscal year to make sure that invoice dates are after July 1st.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.

SECTION IV – PRIOR YEAR FINDINGS

No matters were reported.

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